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I. Introduction

On 11 June 2026, *the Action Plan for Developing Offshore Finance to Bolster Shanghai's Development as an International Financial Centre* (the "**Action Plan**") was jointly issued by the People's Bank of China, the National Development and Reform Commission, the National Financial Regulatory Administration, the China Securities Regulatory Commission, the State Administration of Foreign Exchange and the Shanghai Municipal People's Government, which took effect on the same day.

The Action Plan is a policy document at the national level aiming for the development of offshore finance in China. It designates Shanghai's Pudong New Area as the core pilot zone and proposes the establishment of an offshore financial system covering cross-border fund management, offshore RMB markets, offshore financial products, treasury management for multinational enterprises, as well as supporting legal and regulatory frameworks.

In this publication, we first summarize the key content of the Action Plan and then assess how Shanghai's proposed offshore financial system compares with other established offshore financial centres and what implications it may have for other existing offshore jurisdictions and multinational enterprises.

II. Key Content of the Action Plan

From a policy perspective, most of the initiatives under the Action Plan are closely tied to the needs of Chinese enterprises engaged in overseas investment, international trade, and cross-border treasury management. The focus appears to be on supporting the internationalisation of Chinese businesses, rather than on building an offshore financial centre that is fully open to global capital markets.

(1) Applicable Scope

The Action Plan proposes the establishment of an offshore finance pilot programme in Pudong New Area. The pilot programme is structured around three core concepts: "physical concentration", "participant restrictions" and "account segregation". “Physical concentration” means offshore financial activities will be concentrated within designated areas of Pudong and conducted through approved financial institutions, rather than being rolled out nationwide. “Participant restrictions” means eligible participants will primarily include overseas branches and subsidiaries of Chinese enterprises, companies from Belt and Road Initiative jurisdictions and other qualified foreign companies. “Account segregation” means offshore funds and domestic funds will be managed through separate account structures, thereby allowing regulators to distinguish and supervise offshore and onshore capital flows separately.

Accordingly, the pilot programme is subject to clear limitations regarding both its geographic scope and eligible participants.

(2) Account and Capital Management

The Action Plan does not establish a new offshore account system. Instead, it continues to rely on the already established Free Trade Accounts ("**FT accounts**"), Free Trade Accounting Units ("**FTUs**"), and Offshore Accounts ("**OSA accounts**"), while supporting efforts to optimize their functionality. As for capital management, the fund flows between the offshore system and overseas markets will enjoy greater facilitation, while movements between the offshore system and the onshore domestic financial system will remain subject to relatively strict oversight.

In theory, capital mobility is one of the defining features of successful offshore financial centres. Given the continued reliance on account segregation and ongoing regulatory supervision, it is unclear clear whether Shanghai can meet this threshold.

(3) Digital Application of the RMB

The Action Plan links RMB internationalisation with the development of offshore finance. It proposes leveraging the International Operation Centres for e-CNY to accelerate the use of digital RMB in cross-border payments and offshore commercial activities, while simultaneously fostering the development of offshore RMB foreign-exchange trading. Drawing on international experience, the formation of an offshore currency market typically depends on the spontaneous choices of market participants and the gradual accumulation of liquidity over time. As such, the prospects for Shanghai's offshore RMB market to achieve sufficient depth remain contingent on further market-driven developments.

(4) Offshore Financial Services

The Action Plan prioritizes the development of offshore trade finance, pilot free trade zone ("**FTZ**") offshore bonds, and offshore reinsurance.

In terms of trade finance, the Action Plan encourages banks to provide offshore trade settlement, financing, and cross-border payment services, primarily catering to offshore and entrepôt trade. On the financing front, it promotes the growth of "FTZ offshore bonds" as a new funding channel for Chinese companies involved in the Belt and Road Initiative. If the offshore bond market develops sufficient liquidity, it could serve as a viable complement to existing channels. On the reinsurance side, the Action Plan calls for the "orderly development of offshore reinsurance." Reinsurance is the practice whereby insurers transfer part of the risks they have underwritten to other insurers. It serves as a key mechanism for risk diversification and enhanced underwriting capacity within the insurance industry.

The Action Plan supports eligible specialized reinsurance institutions in investing qualified international inward-reinsurance funds overseas and facilitating cross-border premium and claims settlements, subject to applicable laws, regulations and pilot arrangements. In short, the policy aims to allow offshore reinsurance funds established in the FTZ to be more freely allocated and deployed around the world, thereby making Shanghai a more attractive hub for international reinsurance business. Shanghai had already laid substantial policy groundwork for offshore reinsurance before the Action Plan was issued. The Lingang Special Area has attracted 26 reinsurance-related institutions, while the registration and trading centre has brought in a cumulative total of 164 participating institutions, with annual transaction premiums exceeding RMB 10 billion. Building on this foundation, the Action Plan introduces further facilitative measures to streamline the cross-border use of funds.

(5) Treasury Centres and Non-Resident Financial Services

The Action Plan identifies multinational corporate treasury centres as a key priority, supporting cross-border liquidity pooling, global cash concentration, and cross-border financing arrangements. This not only addresses the needs of multinational enterprises but also reflects the policy intent to bring more cross-border fund management activities into the onshore system. With respect to non-resident financial services, the Action Plan supports the provision of account opening and payment and settlement services to non-resident individuals, and explores businesses such as offshore asset management, family trusts, family offices, and global asset allocation. These are typically important components of mature offshore centres.

(6) Offshore Banks

Offshore banks are the core infrastructure of any offshore centre. The offshore markets of Hong Kong, Singapore, and the Cayman Islands are all built upon banking systems that provide deposit-taking, lending, financing, and foreign exchange services to non-resident clients. However, the Action Plan does not specify whether such an offshore bank in Shanghai would be permitted to accept offshore deposits, extend offshore loans, be subject to a separate regulatory framework, or enjoy a higher degree of freedom in terms of capital flow. The ultimate design of the offshore banking regime will largely determine whether Shanghai's offshore financial system evolves into a relatively independent offshore centre or continues to function as a cross-border service platform within China's existing financial system.

(7) Legal Framework and Regulatory Architecture

The Action Plan calls for dedicated rules for offshore financial businesses, encourages the use of Pudong New Area's legislative powers to drive institutional innovation, and sets out to improve arbitration rules suited to the development of offshore finance. It also envisions a multi-layered regulatory framework covering institutional oversight, market conduct, functionality, look-through supervision, and ongoing monitoring, alongside strengthened systems for tracking cross-border capital flows and managing risks.

However, the Action Plan remains largely a framework document at this state. Most of the institutional arrangements discussed above are still broadly outlined, with detailed rules yet to be issued.

III. Characteristics and Market Impact of Shanghai's Offshore Finance

For a long time, global offshore financial activities have been highly concentrated in jurisdictions such as Hong Kong, Singapore, the Cayman Islands, the BVI, Mauritius, and Seychelles. Thus, the Action Plan has prompted market attention to two core questions: (1) how the “independence” and “safety” of Shanghai's offshore financial system should be assessed; and (2) whether this system is likely to have a material impact on Hong Kong and other traditional offshore centres.

(1) Independence and Safety of Shanghai's offshore financial system

In terms of independence, the key distinction between the Shanghai model and traditional offshore centres lies in its lack of a legal and regulatory framework independent of the onshore financial system. "Account segregation" achieves physical separation of funds, but the legal system, dispute resolution mechanisms, and regulatory rules remain deeply intertwined with the onshore framework. This means that the "independence" of Shanghai's offshore finance is, in essence, conditional and functional.

In terms of safety, the Shanghai model presents a dual picture. For Chinese enterprises, a platform that is closely aligned with domestic regulation and supported by policy offers a relatively high degree of certainty in terms of business implementation and regulatory coordination. For international investors, however, the "safety" of an offshore centre depends not only on the stringency of regulation, but also on the protection of asset rights, the independence of dispute resolution, and the predictability of capital flow rules. The Action Plan has yet to provide clear answers to these core issues, and whether the Shanghai model can establish market trust remains to be tested in practice.

(2) Potential Impact on Hong Kong and Other Traditional Offshore Centres

The Action Plan envisions synergistic development between Shanghai and Hong Kong. However, in terms of business lines, there is notable overlap between Hong Kong's existing areas of strength and the businesses Shanghai intends to develop, including offshore RMB transactions, treasury management, wealth management, and family offices. In the short term, Hong Kong's competitive advantages remain significant: as the world's largest offshore RMB market, it boasts the largest pool of liquidity, the most active RMB bond market, and a mature international investor base; its common law system, international arbitration mechanisms, and long-established financial ecosystem constitute competitive moats that are difficult to replicate. A more likely scenario is that Shanghai will primarily serve market participants closely tied to the Chinese economy, while Hong Kong continues to function as a critical bridge connecting international capital with the Chinese market.

With respect to traditional offshore jurisdictions such as the Cayman Islands, the BVI, Mauritius, and Seychelles, the impact of the Action Plan will likely be felt mainly in the cross-border fund management and financing activities of Chinese enterprises. If Shanghai successfully develops its treasury centre and offshore bond market, some Chinese companies may reduce their reliance on offshore SPVs for financing or fund management. However, their roles in overseas listing structures, fund formation, and cross-border investment platforms are unlikely to be replaced in the near term.

Overall, the Action Plan may gradually reduce some Chinese enterprises' reliance on offshore infrastructure, but is not expected to materially erode the market position of Hong Kong or the aforementioned traditional offshore centres in the short term.

IV. Conclusions and Outlook

Currently, the Action Plan is more of a policy framework document rather than a fully developed institutional system. While it sets forth multiple development directions, a significant number of key institutional arrangements remain at the principle level. The offshore financial system contemplated by Shanghai is fundamentally different from traditional offshore centres. With a restricted client base, ongoing regulatory oversight of capital flows, and operations still embedded within the existing onshore financial framework, it is essentially a regulated cross-border financial pilot platform rather than an independent offshore centre in the conventional sense.

For multinational enterprises, the real focus should not be on which businesses Shanghai will develop, but on whether those businesses can generate sufficient market liquidity, legal certainty, and international investor trust within the existing regulatory framework. Core issues such as the degree of cross-border capital flow freedom, the offshore banking regime, international investor access, and dispute resolution mechanisms will need to be addressed in more detailed subsequent implementing rules.

Thus, the significance of the Action Plan at this stage lies in providing new options for cross-border fund management in the future. For enterprises that already conduct regional treasury management through Hong Kong, Singapore, or other offshore centres, the Action Plan should be treated more as a long-term observation target rather than as an immediate basis for adjusting existing business structures. After all, whether this offshore financial development framework, one that departs from the traditional model, can develop genuine international competitiveness, remains to be seen.

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